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## Dude, You're Getting A Printer; Dell's printer business is puny next to HP's, but it's quickly gaining ground

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**Full Text** (763 words)

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Tom Almy is a dream customer for Dell Inc. The electrical engineer has five Dell PCs in his suburban Portland (Ore.) home, and he was one of the first people to snap up one of Dell's printers after their debut last March. No matter that he can only buy replacement ink cartridges online or over the phone since Dell doesn't sell through retail stores. He says it's less hassle than refilling his old Hewlett-Packard printer, thanks to built-in software that detects when he's running low and automatically directs him to the right cartridge on Dell's Web site. Dell even ships the \$29.95 part to him for free. "It's like gas in the car," says Almy. "I don't wait until I run out."

Look out, HP: Loyal, Web-savvy customers like Almy are giving PC kingpin Dell a lift in its nascent printer line. The company sold 1.5 million printers in the last nine months of 2003, according to Gartner Inc. By the fourth quarter, it had a 3% market share in inkjets, fifth behind HP, Epson, Lexmark, and Canon. And while Dell sold just 31,670 laser models in the fourth quarter, compared with nearly 2 million for Hewlett-Packard Co., executives say demand is accelerating weekly. Analysts predict Dell's printer sales should more than double this year, to between 3 and 4 million units, and revenue should near \$1 billion. Dell's execution has been "almost flawless," says Gartner's Peter Grant.

This drive is part of Dell's strategic plan to diversify beyond PCs into everything from corporate data storage gear to Internet music downloads. But there's also a more Machiavellian motive: draining profits from rival HP, which gets 70% of its operating profit from printers and ink. Dell believes its low-cost, direct-sales approach will allow it to torpedo prices in the printer market -- especially for ink cartridges, which can cost as much in a year as the printer itself. If lower prices start luring HP customers to Dell, HP will have to cut its own prices or give up market share. Either way, HP would risk slippage in the rich profits that have bankrolled price wars with Dell in PCs and servers. "We're going to keep the pedal down," says Dell President Kevin B. Rollins.

Granted, Dell is more pretender than contender right now. HP sold 43 million printers in its fiscal 2003, which ended Oct. 31, about 30 times what Dell sold. Despite Dell's fast start, HP's printer revenue jumped 11%, and it boosted its overall market share with an array of new models. So far, Dell hasn't affected pricing on cartridges, either, and HP has held its printer profit margin steady at 16%. "Dell didn't make any difference," says Vyomesh Joshi, executive vice-president of HP's imaging and printing group.

A DIFFERENT APPROACH. Yet in at least one hot category, it did land a stinger. Last year, Dell introduced two "all-in-ones" -- printers that also scan, copy, and fax. As all-in-one sales soared during the holiday season, Dell's U.S. market share in that category hit 14.5%, just behind No. 2 Lexmark. In the same category, HP's share fell nearly four points, to 53.9%. Now, analysts expect Dell to plow into two other hot categories where HP rules: photo printers and color laser printers. Dell execs declined to discuss upcoming products, but analysts expect them to start popping up this spring.

How far Dell can take its current approach is an open question. For now, Dell buys printers from Lexmark International Inc. and sells them under its own brand name. This limits Dell's power to shave costs. Dell Imaging and Printing Vice-President Tim Peters says the company can still help Lexmark cut costs by helping it manage suppliers. Gartner's Grant predicts Dell will one day license technology from a second-tier printer maker and build its own. Peters says the company has no such plans.

While it looks for a way to shake up pricing, Dell is trying to persuade business customers, who generate 80% of its sales, to try its printers. But here Dell's chasing a moving target. HP is focused on innovations like digital printing that it says can save corporations as much as 30% a year. Since last March, it has rung up \$650 million in contracts to manage printing and copying for the likes of Ford Motor Co. "This is not a category where commoditization" works, says HP's Joshi. He better hope not, because Dell is determined to rip into HP's No. 1 moneymaker.

**[Illustration]**

Illustration: Chart: PRINTER WARS: ROUND 1 CHART BY LAUREL DAUNIS ALLEN/BW

Credit: Andrew Park; Edited by Neil Gross

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